

VZCZCXRO3188
PP RUEHBZ RUEH DU RUEHJO RUEHRN
DE RUEHMR #0204/01 0931540
ZNR UUUUU ZZH
P R 031540Z APR 07
FM AMEMBASSY MASERU
TO RUEHC/SECSTATE WASHDC PRIORITY 2840
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHMR/AMEMBASSY MASERU 3193

UNCLAS SECTION 01 OF 04 MASERU 000204

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FOR AF/S

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EINV](#) [EFIN](#) [PGOV](#) [KHIV](#) [LT](#)

SUBJECT: MINISTER OF FINANCE AND DEVELOPMENT PRESENTS PROPOSED BUDGET
FOR FISCAL YEAR 2007/2008

REF: MASERU OF 008

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11. SUMMARY: The Minister of Finance and Development Planning Dr. Timothy Thahane presented the 2007/2008 National Budget to the Parliament on March 30 2007. The Minister's M7.5bn (\$1.03bn) budget will focus on creating a conducive investment climate and Minimum Infrastructure Platform (MIP) hence, the theme: "Conducive Investment Climate Essential for Sustainable Economic Growth, Job Creation and Poverty Reduction". The budget strives towards accelerating sustainable economic growth, creating a conducive climate for investment, Job creation and poverty reduction. Thahane argued that investment will remain central to strengthening sustainable economic expansion. However, he warned that investment alone cannot guarantee economic growth. He said it should be accompanied by political and social stability, sound macro-economic management, public investment in physical infrastructure and support services and sound financial systems. The budget was drawn in line with the country's Vision 2020 and Poverty Reduction Strategy. (Note: Vision 2020 is the country's long term development plan. End Note.)

12. Thahane raised his concerns about deteriorating economic and social conditions characterized by the high unemployment rate, deepening poverty, armed robbery corruption and nepotism in government's institutions. He argued that the country's economic performance since Independence had not been sustainable enough to adequately reduce poverty and create jobs to absorb the annual entrants into the labor market. Performance in the Agricultural Sector was another issue for concern. He mentioned that the sector's performance as a share of GDP had declined from 25% to 17% between 1980 and 2005.

13. On the External Sector, the Minister commended the country for having done well in the textile industry under the African Growth and Opportunity Act (AGOA) registering as the number one textile exporter to the USA under this initiative. However, Thahane argued that the country can export more given 3000 product lines eligible for quota under AGOA and have duty free access to the USA. He thus urged for Production and Trade capacity building to enable the country to take full advantage of trade preferences under AGOA. Thahane thanked donors for their assistance in the development sector. Thahane announced the launching of a SADC Free Trade Area in 2008 which is expected to increase intra SADC Trade. He mentioned that Lesotho's share of trade in SADC is currently at 5% of GDP which falls below a regional average of 7%. He asserted that the trend is likely to continue given the existing capacity gaps in production and trade. He also indicated that the country faces the same challenge under the EU 'Everything but Arms' (EBA) FTA. It is for these reason therefore, that the budget will support initiatives towards diversification of exports to lift and sustain the country's Trade/GDP ratio in the regional and global

markets. The Minister asserted that Agriculture will continue to play a pivotal role in the livelihoods of the rural communities (Note: In Lesotho about 90% of the population lives in rural areas. End Note.) END SUMMARY

AREAS OF FOCUS FOR 2007/2008

Establishing Investor-friendly climate and Minimum
Infrastructure Platform (MIP)

14. The Minister stressed that, the current budget is about creating investor friendly climate and complimentary MIP to advance economic growth. Department of Immigration got attack on red tape regulations and procedures involved in starting a business and securing a trading license. The Minister maintained that it costs the country 128 per capita GDP to start a business while it costs 40% of GDP to obtain a trading license. The cost of starting a business in Lesotho is therefore considered high. He asserted that there is not really anything to make the country an attractive place to do business and arguably that is something that should start to drive a way towards reducing risks and time taken in starting a business in Lesotho. To this effect the Minister announced two initiatives aimed at resolving the situation.

15. The first initiative will be supported by World Bank and aims at reducing risks, time and cost of registering and licensing companies. This will be achieved by overhauling Lesotho's laws, regulations and procedures. The process will include reducing delays in issuance of passports and increasing access to financing small and medium enterprises (SMMES). The

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second initiative will focus on improving and streamlining registration of land titles and leases, developing a mortgage financing market and introducing small claims courts as another alternative to dispute resolution mechanism. This will be a joint initiative with US Government through the Millennium Challenge Corporation (MCC). (Note: The MCC is currently appraising the country's approx. USD 362 Development Compact. End Note)

Minimum Infrastructure Platform (MIP)

16. Under the MIP the Minister mentioned the following components:

--The start of construction of Metolong dam and its access roads and clinics.

(Note: GOL is expecting \$ USD 45 000 from MCC for this project. End Note.)

-\$USD 30m Telecommunications investment in Telecom Lesotho to be concluded with, China's Exim Bank for the expansion of network throughout the country.

--Expansion of electricity supply, urban water reticulation and waste water system and Urban roads.

--Introduction of automatic check clearing system to shorten the time taken before individuals get their checks

--Establishment of employee productivity improvement centers in

the main Industrial areas.

Tourism

17. The Minister indicated that Lesotho's share of tourism to GDP is 1.5% which is below the regional average of 7%. He mentioned that the budget will support strengthening of tourism products and management of the sector by marketing products on line through World hotel link. The budget will also consider commercial concessioning of key tourist sites .

Agriculture

18. In addressing poor performance in the agricultural sector, which is attributed to unpredictable weather conditions, the Minister cautioned that agriculture will continue to play a pivotal role in the livelihoods of the rural communities (Note: In Lesotho about 90% of the population live in rural areas. End Note.) He announced the following interventions aiming at transforming the sector:

- Increasing productivity through irrigating suitable lands adjacent to water catchments, rivers and lakes
- Changing crop mix from traditional crops with low cash value to high value commercial crops
- Make agriculture full time occupation
- introducing modern agricultural management and scientific

PRIORITY ALLOCATIONS FOR 2007/2008

19. The total expenditure budget of M7bn (USD 1,033) will be financed through tax revenue of M6.4bn

(USD 913m) and external grants and loans of M490 (USD 70) and loans of M330.7m (USD 47,200) respectively. Government Spending will be driven along the Vision 2020 and Poverty Reduction Strategy priorities. Therefore, the Minister identified the following areas of priority in allocating the 2007/2008 budget.

-Intensifying HIV and AIDS programs including "Know your Status" and Introduction ARV's to infected persons.- M109m (USD 15.6m)

-Basic Education -M88.4m (USD 12.6m)

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-Industrial Infrastructure and Private Sector Competitiveness
-M25.9m (USD 15.6m)

-Provision of roads rural water supply electricity and construction of foot bridges

-Construction of Metolong Dam M668m (USD 95m)

-Agriculture- horticulture pilot projects on high cash crops and irrigated crop production -M59 million (USD 8.4m)

-Tourism- M39 million (USD 5.6 m)

-Public Sector Reform- Financial Management and Procurement Reforms- M58.2 million (USD 8.3m)

Budget Economic Breakdown

Total Expenditure	M7.2 bn
Recurrent	M5.3 bn
Capita	M1.9bn
Tax Revenue	M5.8bn
Non Tax Revenue -	M0.6bn

(non-tax includes water

Royalties and grants)

Adjusted fiscal deficit M 0.3bn (3% of GDP)

The speech provided the following Ministerial Allocation
breakdown (in million maloti) and USD\$m)

	USD\$	Maloti
Agriculture and food security 25.3	176.9	
Health and Social Welfare 119.7	838.1	
Education and Training 167.9	1175.1	
Finance and Planning 151.4	1059.6	
Trade and Industry 10.1	70.8	
Justice 23.3	162.8	
Home Affairs 35.9	251.3	
Communications & Tech 9.1	63.7	
Prime Minister's Office 16.5	115.6	
Law & constitutional Affairs 7.0	49.1	
Foreign Affairs 29.2	204.2	
Public Works and Transport	537.6	76.8
Forestry and Land Reclamation	51.3	7.3
Natural Resources 53.9	377.0	
Employment and Labour	35.4	5.1
Tourism, Environment & Cul	79.3	11.9
Auditor General 1.9	13.3	
His Majesty's Office 1.4	9.9	
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Public Service Commission 0.5	3.6	

¶10. In addition Thahane mentioned that the budget will also support two needy groups in the society namely the disabled and the elderly. He said the current budget will assist the disabled members of the society to live more normal, independent and productive lives. He also recognized the drain of HIV/AIDS widespread presence among Basotho citizens. The Minister did not give the details of how the budget would achieve this goal. The extra money for the elderly via a monthly increase of M50 from M150-M200 was welcomed. The low income group received an uplift of tax threshold from M11,643 (USD1,663) to M14 000 (USD 2000) per annum. The Minister further announced a 10% across the board salary increase for civil servants.

¶11. Following the Finance Minister's speech, Parliament was adjourned by the Speaker of the House with questions to begin April 2.

¶12. Comment: The 2007/2008 presented a positive outlook of the economy with a host of programs aimed at creating private sector competitiveness in the economy and creating Minimum Infrastructure Platform for investment. These programs could pay significant dividends to the economy upon delivery. However, in most cases, details did not forth on how these broad goals would be implemented. It is then anticipated that many will reserve judgment/evaluation until they see real delivery on the ground. Concerns have already been made that the budget does not have much to offer for the people on the ground. Although the Minister did not comment on the previous year's budget performance, there is a significant increase of 26% in spending from last year's budget while most of spending programs remain the same from last year's budget. This is a clear indication that the government failed to deliver on the same programs outlined in 2006/2007 budget. This could pose a greater challenge to the Minister given the fact that his budget was not able to bring the expected results previously, hence the carry over to the current budget. The Minister's emphasis on diversification and sustainable economic growth (in the face of limited agricultural resources and the AIDS pandemic) was well received by development partners. At the same time, it demonstrated the need for both government and donor vigilance, accountability and creativity. End Comment.

PERRY